



Economic Development

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Economic Development

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	19,779,100	29,565,500	34,845,200	24,641,700	31,737,100
Continuing Appropriation	7,702,000	7,200,300	6,700,000	7,200,300	3,123,600
Salary Compensation Fund	255,100				
Base Deduction	-813,100				
Total General Fund	26,923,100	36,765,800	41,545,200	31,842,000	34,860,700
Restricted Funds					
Balance Forward	2,334,400	520,700		520,700	
Current Receipts	1,737,600	3,086,100	3,517,000	2,331,700	2,696,300
Non-Revenue Receipts	1,249,300	1,234,200	1,411,300	1,234,200	1,411,300
Fund Transfers	-200,000				
Total Restricted Funds	5,121,300	4,841,000	4,928,300	4,086,600	4,107,600
Federal Funds					
Balance Forward	16,800	16,800	16,800	16,800	16,800
Current Receipts	155,400	155,400	155,400	155,400	155,400
Total Federal Funds	172,200	172,200	172,200	172,200	172,200
TOTAL SOURCE OF FUNDS	32,216,600	41,779,000	46,645,700	36,100,800	39,140,500
EXPENDITURES BY CLASS					
Personnel Cost	10,501,300	13,637,000	14,233,100	10,880,000	11,020,800
Operating Expenses	2,017,700	4,425,200	4,445,800	1,854,600	1,854,600
Grants, Loans or Benefits	11,725,800	17,000,000	21,750,000	20,225,800	23,266,300
Debt Service	234,000				2,982,000
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700
EXPENDITURES BY FUND SOURCE					
General Fund	19,722,800	30,065,800	35,345,200	28,718,400	34,860,700
Restricted Funds	4,600,600	4,841,000	4,928,300	4,086,600	4,107,600
Federal Funds	155,400	155,400	155,400	155,400	155,400
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700
EXPENDITURES BY UNIT					
Secretary	13,112,400	19,960,500	24,965,100	17,959,000	24,065,200
New Business Development	2,261,600	3,395,200	3,465,100	2,112,200	2,124,500
Financial Incentives	5,548,700	6,626,700	6,749,200	9,066,300	9,065,200
Existing Business Development	3,556,100	5,079,800	5,249,500	3,822,900	3,868,800
TOTAL EXPENDITURES	24,478,800	35,062,200	40,428,900	32,960,400	39,123,700

The Cabinet for Economic Development is governed by the Kentucky Economic Development Partnership, pursuant to KRS 154.

The Partnership board has 11 voting members and two non-voting members. The 11 voting members are the Governor, who is chairman, the Secretary of the Finance and Administration Cabinet, the Secretary of the Environmental and Public Protection Cabinet, and eight private sector members representing all facets of the economic development community, who are appointed by the Governor. The Secretary of the Cabinet for Economic Development (nominated by the Economic Development Partnership and appointed by the Governor) and the Secretary of Commerce Cabinet serve as non-voting members.

The Partnership's strategic plan states that its mission is to "create more and higher quality opportunities for all Kentuckians by building an expanding sustainable economy."

To accomplish the Partnership mission, the Cabinet has adopted four goals:

- Manage Cabinet resources more efficiently and effectively
- Reduce unemployment and increase *per capita* income
- Create a globally-competitive business environment
- Manage resources to maximize return on investment

The budgetary resources for the Cabinet are organized in four appropriation units: Office of the Secretary, New Business Development, Financial Incentives, and Existing Business Development. The Department for Commercialization and Innovation's budget is a part of the Office of the Secretary.

**Economic Development
Secretary**

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	11,262,100	18,620,500	23,625,100	16,619,000	22,725,200
Salary Compensation Fund	111,300				
Base Deduction	-205,800				
Total General Fund	11,167,600	18,620,500	23,625,100	16,619,000	22,725,200
Restricted Funds					
Balance Forward	1,178,100	343,600		343,600	
Current Receipts	505,500	796,400	1,140,000	796,400	1,140,000
Non-Revenue Receipts	804,800	200,000	200,000	200,000	200,000
Fund Transfers	-200,000				
Total Restricted Funds	2,288,400	1,340,000	1,340,000	1,340,000	1,340,000
TOTAL SOURCE OF FUNDS	13,456,000	19,960,500	24,965,100	17,959,000	24,065,200
EXPENDITURES BY CLASS					
Personnel Cost	3,820,600	5,078,000	5,311,100	4,001,200	4,056,400
Operating Expenses	882,000	1,432,500	1,454,000	782,000	782,000
Grants, Loans or Benefits	8,175,800	13,450,000	18,200,000	13,175,800	17,175,800
Debt Service	234,000				2,051,000
TOTAL EXPENDITURES	13,112,400	19,960,500	24,965,100	17,959,000	24,065,200
EXPENDITURES BY FUND SOURCE					
General Fund	11,167,600	18,620,500	23,625,100	16,619,000	22,725,200
Restricted Funds	1,944,800	1,340,000	1,340,000	1,340,000	1,340,000
TOTAL EXPENDITURES	13,112,400	19,960,500	24,965,100	17,959,000	24,065,200
EXPENDITURES BY UNIT					
Executive Policy & Management	2,629,600	2,305,500	2,369,600	2,846,700	2,859,600
Commercialization & Innovation	8,107,300	14,782,400	19,588,000	12,675,700	18,732,100
Research and Information Technology	1,464,800	1,851,400	1,951,000	1,523,800	1,550,000
Administration and Support	910,700	1,021,200	1,056,500	912,800	923,500
TOTAL EXPENDITURES	13,112,400	19,960,500	24,965,100	17,959,000	24,065,200

The Secretary's Office provides management of the programs and entities within the Cabinet under the direction of the Kentucky Economic Development Partnership Board. Staff and administrative functions within the Office include communication and marketing services, general counsel, legislative initiatives and special projects.

The Office of Research and Information Technology provides Cabinet-wide support in the areas of information technology, research services and strategic planning support. The staff in this division maintain current data on available industrial sites and buildings in the state; compile data on taxes, transportation, education, labor force availability and industrial services; and provide general economic and demographic statistics for all Kentucky communities.

The Office of Administrative Services provides accounting, budgeting, procurement, and personnel services for all of the agencies within the Cabinet.

The Department for Commercialization and Innovation (DCI) is within the Office of the Secretary. This Department is created by KRS 154.12-278 with the mission to implement the Kentucky Innovation Act passed by the 2000 General Assembly, which mandates creation of the infrastructure necessary to support knowledge-based and technology-driven firms in the Commonwealth of Kentucky. Such New Economy businesses need pure research from universities and other institutions,

laboratory and technology resources, a workforce with current scientific and technical skills, and high-speed communications capability. Just as the industrial firms of the manufacturing economy tended to locate near steel mills and electricity generators, these new firms tend to grow in clusters around their necessary resources. The Department uses grants, loans, training and information to make available those raw materials of the New Economy, and provides assistance to existing and start-up firms in bringing their knowledge-based products to commercial viability. The Commissioner of DCI works closely with the state universities, the Council on Postsecondary Education, and the Governor's Office for Agricultural Policy, among others, to build a thriving entrepreneurial climate in Kentucky.

The Commissioner of DCI and the Kentucky Economic Development Finance Authority administer the high tech construction and high tech investment pools, as prescribed in KRS 154.12-278. In 2005, these efforts included providing a grant for \$750,000 to MetaCyte Business Lab, a biotechnology incubator, to help create new biotech companies and to hire the management and marketing expertise needed by these start-up firms. Over one million dollars was provided to the Center for Pharmaceutical Science & Technology at the University of Kentucky. CPST is building a new, 20,000 square foot pharmaceutical clinical-supplies manufacturing facility, which will also bring in high-skill, high-wage jobs.

Policy

On April 27, 2005, the Kentucky Economic Development Partnership Board adopted resolution 05-03, changing the name of the Department for Innovation and Commercialization for a Knowledge Based Economy to the Department for Commercialization and Innovation (DCI).

The Executive Budget includes General Fund support in each fiscal year for the ideaFestival. An additional General Fund appropriation of \$2,051,000 in fiscal year 2008 is for debt service on \$20,000,000 in bonds for the high tech construction and high tech investments pools.

In the Department for Commercialization and Innovation, General Fund appropriations of \$8 million in fiscal year 2007 and \$12 million in fiscal year 2008 are provided for several new initiatives:

The Kentucky **Life Sciences Commercialization Program** will address one of the key recommendations from the Governor's Life Sciences/Biosciences Consortium Report in 2005. That recommendation called for enhancing Kentucky's current statewide biotechnology commercialization program to more adequately address the needs of the Life Sciences disciplines. Existing biotechnology commercialization efforts will be expanded.

<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
\$ 5,000,000	\$ 5,000,000

A **Small Business Innovation Research Incentive Program** will encourage small businesses to explore their technological potential and maximize profit from commercialization. DCI will match all Phase 1 and Phase 2 Federal awards received by Kentucky businesses. This would include matching awards of up to \$100,000 to support Phase 1 exploration of the technical merit or feasibility of an idea or technology. Phase 2 Federal awards, which support full-scale research and development, can be up to \$750,000, and would be matched by the Commonwealth up to the first \$500,000.

Phase 1	\$ 2,050,000	\$ 2,000,000
Phase 2	-0-	4,300,000

A **Strategic Analysis of Technologies** will reevaluate Kentucky's top science and technology assets and capabilities (other than the biosciences) as identified in the 2002 Strategic Plan. This will ensure commercialization and innovation initiatives are aligned with the Commonwealth's technological resources.

\$ 200,000	-0-
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A **Statewide Science and Technology Assets Database** will be developed that catalogs all science assets and capabilities statewide. The comprehensive, searchable database will be available for use by businesses in Kentucky and other states to facilitate existing and new business relationships between companies.

\$ 300,000	\$ 250,000
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The Department will conduct a statewide **Life Sciences and Biotechnology Assessment** that includes a fast-start technology commercialization and innovation strategy and biosciences assets database to be included in the database mentioned above. The assessment will focus on life sciences and biotechnology to help develop specialized insight into the Commonwealth's biotechnology industry to facilitate building internal competencies, identifying growth opportunities, and

implementing strategies to overcome challenges in the innovative life sciences sector.

Fiscal Year 2007

Fiscal Year 2008

\$ 150,000

\$ 150,000

The Department will develop a statewide **Nanoscience Analysis and Strategic Plan** and implement a fast-start technology commercialization and innovation strategy. The analysis would be similar to the assessment described above for life sciences and biotechnology, but would focus on nanoscience. Since nanoscience is a “cross-cutting” technology that involves virtually every other area of science, the analysis and plan would also look at related areas of information technology and communications, environmental and energy technology, and materials science and advanced manufacturing.

\$ 150,000

\$ 150,000

A **Statewide Business Plan Competition and Awards** program will encourage entrepreneurship and develop new high-growth ventures in the Commonwealth. The winner will receive a cash award of up to \$100,000.

\$ 150,000

\$ 150,000

The Governor’s recommended budget includes \$420,800 in General Fund support in each fiscal year for the Louisville Waterfront Development Corporation.

**Economic Development
New Business Development**

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,812,300	2,648,200	2,718,100	1,365,200	1,377,500
Salary Compensation Fund	20,600				
Base Deduction	-151,300				
Total General Fund	1,681,600	2,648,200	2,718,100	1,365,200	1,377,500
Restricted Funds					
Balance Forward	757,100	177,100		177,100	
Non-Revenue Receipts		569,900	747,000	569,900	747,000
Total Restricted Funds	757,100	747,000	747,000	747,000	747,000
TOTAL SOURCE OF FUNDS	2,438,700	3,395,200	3,465,100	2,112,200	2,124,500
EXPENDITURES BY CLASS					
Personnel Cost	1,795,000	2,052,000	2,122,500	1,645,600	1,657,900
Operating Expenses	466,600	1,343,200	1,342,600	466,600	466,600
TOTAL EXPENDITURES	2,261,600	3,395,200	3,465,100	2,112,200	2,124,500
EXPENDITURES BY FUND SOURCE					
General Fund	1,681,600	2,648,200	2,718,100	1,365,200	1,377,500
Restricted Funds	580,000	747,000	747,000	747,000	747,000
TOTAL EXPENDITURES	2,261,600	3,395,200	3,465,100	2,112,200	2,124,500

The Department for New Business Development is responsible for recruiting businesses to locate new facilities in Kentucky. This task includes targeting and contacting specific industries and businesses outside of Kentucky; meeting and corresponding with business representatives; and coordinating site location referrals and visits. The Department coordinates the exchange of information concerning financing, workforce availability and training assistance, and regulatory requirements.

The Department has representatives in two international offices in Tokyo, Japan and Brussels, Belgium. Contractual agents in these offices assist in the recruitment of international companies to the Commonwealth.

Policy

On April 27, 2005, the Kentucky Economic Development Partnership Board adopted resolution 05-02 which dissolved the Department of Regional Development in the Cabinet for Economic Development and transferred the existing personnel and remaining duties related to administration of the multi-county coal fund to the Department for New Business Development.

Economic Development Financial Incentives

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	3,327,600	3,582,400	3,617,900	3,200,000	4,131,000
Continuing Appropriation	7,702,000	7,200,300	6,700,000	7,200,300	3,123,600
Salary Compensation Fund	32,400				
Base Deduction	-41,200				
Total General Fund	11,020,800	10,782,700	10,317,900	10,400,300	7,254,600
Restricted Funds					
Balance Forward	264,300				
Current Receipts	1,232,100	2,289,700	2,377,000	1,535,300	1,556,300
Non-Revenue Receipts	231,800	254,300	254,300	254,300	254,300
Total Restricted Funds	1,728,200	2,544,000	2,631,300	1,789,600	1,810,600
TOTAL SOURCE OF FUNDS	12,749,000	13,326,700	12,949,200	12,189,900	9,065,200
EXPENDITURES BY CLASS					
Personnel Cost	1,923,800	2,804,500	2,927,300	1,941,400	1,968,800
Operating Expenses	124,900	322,200	321,900	124,900	124,900
Grants, Loans or Benefits	3,500,000	3,500,000	3,500,000	7,000,000	6,040,500
Debt Service					931,000
TOTAL EXPENDITURES	5,548,700	6,626,700	6,749,200	9,066,300	9,065,200
EXPENDITURES BY FUND SOURCE					
General Fund	3,820,500	4,082,700	4,117,900	7,276,700	7,254,600
Restricted Funds	1,728,200	2,544,000	2,631,300	1,789,600	1,810,600
TOTAL EXPENDITURES	5,548,700	6,626,700	6,749,200	9,066,300	9,065,200
EXPENDITURES BY UNIT					
Financial Incentives	1,473,900	2,289,700	2,377,000	1,535,300	2,487,300
Bluegrass State Skills	4,074,800	4,337,000	4,372,200	7,531,000	6,577,900
TOTAL EXPENDITURES	5,548,700	6,626,700	6,749,200	9,066,300	9,065,200

The Department of Financial Incentives coordinates all of the financial assistance programs and tax credits available to businesses locating and expanding in Kentucky.

Staff in the Department administer the decisions of the Kentucky Economic Development Finance Authority (KEDFA). KEDFA encourages economic development, business expansion, and job creation by providing loans and grants for building new plants; expanding existing facilities; and recruiting and training Kentuckians for new and better-paying jobs. Members of KEDFA include six private citizens appointed by the Kentucky Economic Development Partnership Board, and the Secretary of the Finance and Administration Cabinet who is an *ex officio* appointee. The repayable and forgivable loans, grants and credits that KEDFA provides are authorized in the statutes to address a variety of economic situations such as chronic high levels of unemployment; lack of job skills in the available workforce; and lack of adequate physical, communications, and transportation infrastructure. Some of the programs are available to firms statewide, while others are targeted to areas that meet specific needs criteria.

- Small Business Loan Program (KRS 154.12-330)
- The Economic Development Bond Program (KRS 154.12-100)
- The Direct Loan Program (KRS 154.20-030)
- The Kentucky Investment Fund Act (KRS 154.20-256)
- The Kentucky Rural Economic Development Act (KRS 154.22)

- The Kentucky Economic Opportunity Zone Act (KRS 154.45-010)
- The Kentucky Economic Preference (Enterprise) Zone Act (KRS 154.45-010)
- The Kentucky Jobs Development Act (KRS 154.24-010)
- The Kentucky Industrial Revitalization Act (KRS 154.26)
- The Kentucky Industrial Development Act (KRS 154.28)
- The Kentucky Reinvestment Act (HB 510, 2003 session)
- Tax Increment Financing (KRS 65.6971 and KRS 65.6972)
- New Economy Grants (KRS 154.12-278)
- Industrial Revenue Bonds (issued or reviewed under the authority of KRS 103.210)

Bluegrass State Skills Corporation (BSSC) is an independent, *de jure* corporation, created in KRS 154.12-204 through 154.12-208 and attached for administrative purposes to the Cabinet for Economic Development. The Corporation stimulates economic development by funding the cost of training employees and upgrading their skills. Individual firms and business consortia that want to upgrade the training of their workers can apply for cost reimbursement from BSSC. In addition to underwriting the cost of training, BSSC works with the Department for Workforce Investment and the Kentucky Community and Technical College System to develop curricula and provide teachers to meet the specific needs of a firm and its employees.

The Economic Development Bond program as authorized in KRS 154.12-100 uses bond proceeds to leverage private investment to promote the overall economic development of the Commonwealth. This includes the development of public projects such as industrial parks, river ports, and tourism facilities.

Policy

General Fund appropriations for the Bluegrass State Skills Corporation's grants shall not lapse to the credit of the General Fund surplus, but shall continue forward from each fiscal year to the next fiscal year to the extent that any balance is unexpended.

The Executive Budget includes a General Fund appropriation of \$931,000 in fiscal year 2008 for debt service on \$10,000,000 in bonds for the economic development pool.

**Economic Development
Existing Business Development**

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	3,377,100	4,714,400	4,884,100	3,457,500	3,503,400
Salary Compensation Fund	90,800				
Base Deduction	-414,800				
Total General Fund	3,053,100	4,714,400	4,884,100	3,457,500	3,503,400
Restricted Funds					
Balance Forward	134,900				
Non-Revenue Receipts	212,700	210,000	210,000	210,000	210,000
Total Restricted Funds	347,600	210,000	210,000	210,000	210,000
Federal Funds					
Balance Forward	16,800	16,800	16,800	16,800	16,800
Current Receipts	155,400	155,400	155,400	155,400	155,400
Total Federal Funds	172,200	172,200	172,200	172,200	172,200
TOTAL SOURCE OF FUNDS	3,572,900	5,096,600	5,266,300	3,839,700	3,885,600
EXPENDITURES BY CLASS					
Personnel Cost	2,961,900	3,702,500	3,872,200	3,291,800	3,337,700
Operating Expenses	544,200	1,327,300	1,327,300	481,100	481,100
Grants, Loans or Benefits	50,000	50,000	50,000	50,000	50,000
TOTAL EXPENDITURES	3,556,100	5,079,800	5,249,500	3,822,900	3,868,800
EXPENDITURES BY FUND SOURCE					
General Fund	3,053,100	4,714,400	4,884,100	3,457,500	3,503,400
Restricted Funds	347,600	210,000	210,000	210,000	210,000
Federal Funds	155,400	155,400	155,400	155,400	155,400
TOTAL EXPENDITURES	3,556,100	5,079,800	5,249,500	3,822,900	3,868,800
EXPENDITURES BY UNIT					
Small Business Advocacy	221,600	767,800	782,500	295,600	300,700
Executive Policy & Management	436,000	531,200	555,500	443,500	450,400
Small Business Services	1,002,300	1,199,300	1,245,900	1,038,600	1,049,900
Regional Offices	1,102,100	1,245,000	1,307,000	1,105,200	1,122,500
International Trade	794,100	1,336,500	1,358,600	940,000	945,300
TOTAL EXPENDITURES	3,556,100	5,079,800	5,249,500	3,822,900	3,868,800

The Department of Existing Business Development is responsible for the retention and expansion of existing businesses. It seeks to expand Kentucky's entrepreneurial capacity and to help communities realize their economic potential. The Department includes the Division of Small Business Services, the regional development offices and the Division of International Trade.

The Small Business Services Division promotes small business development through three entrepreneurial support programs:

- Business Information Clearinghouse serves as a centralized information source on business regulations; assists new and expanding businesses to secure licenses and permits; and acts as a referral service for government financial and management assistance programs.

- Kentucky Procurement Assistance provides technical assistance to businesses competing for federal and state government contracts.
- Small and Minority Business serves as a resource center for business owners/managers and establishes educational programs to address the needs of minority enterprises.

The regional economic development offices foster the retention and expansion of Kentucky's manufacturing and value-added business base. The Division has offices in Madisonville, Frankfort and Prestonsburg. Staff in these offices offer a statewide industry visitation program to help Kentucky's business and industry improve their competitive positions and to access state incentive programs. Regional staff also assist communities and local economic development groups to improve their business infrastructure and to develop industrial sites.

The International Trade Division enables Kentucky companies to become more competitive in global markets. The division emphasizes trade awareness and education. Staff provide assistance to Kentucky companies on trade-related issues and participate in trade missions. The division demonstrates how local economic development groups might develop trade assistance programs.

- The Kentucky Agricultural and Commercial Trade Office located in Guadalajara, Mexico, promotes exports of Kentucky manufactured goods, services, and agricultural products throughout Mexico. This office is funded and operated cooperatively by the Cabinet for Economic Development and the Kentucky Department of Agriculture.
- The Kentucky South America Trade Office located in Santiago, Chile, assists Kentucky companies in large and important markets throughout South America. The Chile Free Trade Agreement offers Kentucky export sectors improved market access and streamlined custom services to fast-growing Chilean markets.
- The Department expects to open a trade office in China during the fourth quarter of fiscal year 2006.

Policy

On June 17, 2005, Executive Order 2005-571 dissolved the Commission on Small Business Advocacy, created in KRS 11.200 and 11.202, in the Commerce Cabinet and recreated the Commission in the Cabinet for Economic Development. Commerce Cabinet General Fund appropriations for fiscal year 2006 were transferred to the Department of Existing Business Development to support the staff and operations of the Commission.

The Governor's recommended budget includes an additional \$100,000 each year to support the new China trade office. Increased support of \$50,000 each year is provided for the South America Trade Office. The funds are needed to compensate for changes in currency exchange rates and to allow staff in the Santiago office to travel to Kentucky at least once each year.

The Executive Budget includes \$150,000 each year to support a business development professional in Louisville who will work with aspiring minority entrepreneurs to build successful proprietorships. The Kentucky Economic Development Finance Authority shall make available \$300,000 in fiscal year 2008 for micro-business loans in the Small and Minority Business entrepreneurship program.